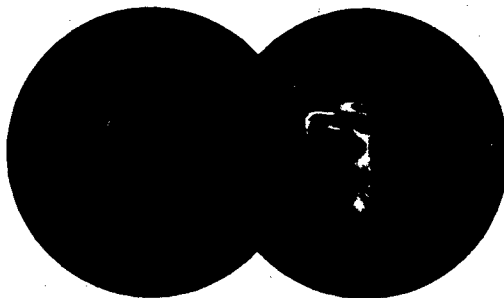


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WEEKLY SUMMARY



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H I G H L I G H T S

With Western Europe faced with no immediately crucial issues this week, and the Soviet Union maintaining an attitude of comparative correctness in its foreign relations, some developments favorable to US security interests occurred in Greece and the Middle East. Estimated guerrilla strength in Greece has fallen below 17,000 for the first time in nearly two years (see page 6), and Tito's present attitude toward the conflict in Greece may be hurting the guerrillas where they are most vulnerable, namely, in manpower. Meanwhile, the first progress in months toward settlement of the Kashmir dispute was achieved when the Indian and Pakistani Armies agreed on demarcation of a cease-fire line (see page 8). Whether this progress continues, however, will depend in large part on India's reaction to the expected proposal by the UN Commission on India and Pakistan for a joint political meeting to consider truce proposals in preparation for a Kashmir plebiscite.

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WESTERN EUROPE

GERMANY

Electoral Prospects Catholic and Evangelical Church support of the Christian Democratic Union (CDU) in western Germany will not appreciably affect the results of the 14 August federal elections. Both the German Catholic bishops and the Council of Evangelical Churches have exhorted their followers to vote only for candidates who will support religious education in the schools. The CDU is the only major party which supports the Church's position on the issue of religious education, the Social Democratic Party (SPD) and the Free Democratic Party (FDP) having already opposed it at the Bonn constitutional convention. German sentiment against clerical interference in political affairs is so strong, however, that the recent move by the Church will probably do no more than prevent an excessive splintering of the conservative vote. By increasing the hostility between the CDU and the SPD, however, the bishops' action will make the formation of a stable two-party coalition more difficult and will widen the breach between German Socialists and Catholics.

Berlin Economy The financial troubles of western Berlin continue to be a major issue for the Berlin Magistrat, the western powers, and the various political parties taking part in the current electoral campaign in western Germany. Despite strenuous efforts by the Magistrat to balance the 1949-50 budget, revenues are still expected to fall short of expenditures by approximately 500 million marks. Only half of this deficit will be covered by a subsidy from western Germany. Moreover, planned revenue from new taxes on coffee, tea, beer, cigarettes, and cigars--ranging up to 60% of the retail price--may be sharply reduced

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as a result of Soviet action in dumping large quantities of these products into western Berlin from the eastern zone. The necessity to convert east marks into west marks will also be a burden for the west Berlin government as long as economic conditions force a large number of west Berliners to work in the Soviet sector of the city. Meanwhile, the injection of west Berlin's financial troubles as a major issue between parties now campaigning in the west German elections has contributed to the reluctance of the Magistrat to face the Berlin budget problems realistically. The German Socialist Party is promising, in the event of a clear-cut victory, to extend unlimited aid to the city to insure full employment, while the Christian Democratic Union would restrict aid to loans to private industry.

Manpower Problems The influx into western Germany of refugees and expellees is complicating the problem already created by the changing pattern of the German population, a problem which may become increasingly important as west Germany strives to regain its prewar competitive position in the international market. The postwar population in western Germany is characterized by: (1) a shortage of men; (2) an inadequate number of people in the working-age groups and in gainful employment; and (3) a movement of people from "productive" to "non-productive" employment. The refugees and expellees, who are settling in rural areas primarily because of the extreme housing shortage in cities and towns, have not yet augmented to any significant degree the industrial production potential of western Germany. The shortage of men, serious even in relation to the total population, is alarming in the age group considered most important to industrial production. The number of men and women in the best working-age group (15-44 years) has declined to

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one-quarter of the population. The proportion of men in this age group, which was decimated by casualties during World War II, has dropped sharply from one-half to one-third. The proportion of the population gainfully employed in western Germany has dropped to 43% from the prewar average of 50%. Moreover, the low level of industrial activity in western Germany, with the attendant high unemployment, has obscured two other basic obstacles to increased productivity in western Germany, namely the advanced age of most skilled workers and the lack of properly trained replacements in the skilled trades.

UNITED KINGDOM

Colonial Development British economic planners are placing increased emphasis on raising the level of production in colonial areas as a partial solution to Britain's long-term payments problem. Despite the large, untapped resources of many of the colonies, British post-war expenditures for their development have been comparatively modest, owing in large part to scarcities of raw materials, capital goods, and technicians in the sterling area. In seeking non-British capital to expand the development program, the UK is relying mainly on loans from the International Bank and on some ECA aid rather than on extensive US private investment. Aside from the obvious desire to retain profitable investment opportunities for British use, the UK fears the social and political reaction resulting from too swift economic development. The Colonial Office has admitted the possibility of more rapid utilization of colonial resources but has also indicated its intention to avoid the sort of unbalanced economic development which has brought colonialism into ill repute in much of the

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~~SECRET~~**UNITED KINGDOM**

world. With Britain's large stake in colonial development assuming greater importance in view of the UK's stubborn dollar problem and with native nationalism already hypersensitive about "exploitation" of colonial territories, the British Government feels it cannot risk the quick profits of an uncontrolled colonial investment program.

FRANCE

Financial Crisis With Parliament recessed until mid-October, the principal threat to the Queuille Government is an impending financial crisis over the need for 25-30 billion francs to meet French Treasury obligations between now and October. This deficit has resulted primarily from: (1) lower-than-expected revenues from taxes on tobacco and gasoline sales; (2) the failure of small savings to increase rapidly; (3) lagging receipts from direct taxes; and (4) the huge operating deficit of the nationalized railroads. Under these circumstances, a crisis could arise that might cause the downfall of the Queuille regime. In an attempt to avoid such a crisis, the French have requested that ECA authorize a special release of counterpart funds. It is likely that the French will comply with the conditions posed by ECA Paris for such a special release.

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~~SECRET~~**E A S T E R N E U R O P E****G R E E C E**

Guerrilla Manpower With guerrilla strength in Greece estimated at below 17,000 for the first time in nearly two years, Tito's present attitude toward the Greek guerrillas and their Slavo-Macedonian supporters may be hurting the guerrillas where they are most vulnerable, namely, in manpower. By "gradually closing" the Greek frontier to the guerrillas, Tito is not only restricting guerrilla tactical movements but is asserting his control over the several thousand guerrilla reserves remaining in Yugoslavia. By his blandishments to the Greek Slavo-Macedonians, he is undermining a hitherto minor source of Greek guerrilla manpower and other support which may become increasingly important to the guerrillas when the Greek Armed Forces' summer offensive develops. The influence Tito can exert over the total guerrilla manpower supply, however, is not decisive. Guerrilla reserves in Albania are larger than in Yugoslavia, and both Albania and Bulgaria are more important as bases of supply and manpower than Yugoslavia could be under present conditions. The depletion of guerrilla manpower resulting from any attempted large-scale resistance in critical areas near the Albanian-Greek frontier this summer may provide a decisive test of Tito's attitude toward the Greek Government and the Greek guerrillas.

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NEAR EAST - AFRICA

PALESTINE

Arms Embargo The embargo on shipment of arms to the Middle East will probably be removed by the Security Council as a result of British and French pressure and the recommendation of UN Mediator Ralph Bunche. Bunche believes that prolonging the embargo would be unrealistic in view of the dismantlement of the truce supervision machinery and points out that a strong Israeli argument in favor of retaining the embargo would be nullified by airing Israel's past violations of the truce with regard to the immigration of "fighting men" and the importation of arms from Eastern Europe. The British and French have long sought to regain their freedom to export arms to the Arab states, and Israel itself now seems reconciled to lifting the embargo, chiefly because such action would support its argument for removal of Egyptian restrictions on Suez Canal traffic. If the embargo is lifted, Israel's efforts to prevent a Near East arms race will probably be exerted through diplomatic channels rather than through the SC.

IRAN

Oil Contract Failure of the Majlis to ratify the supplemental agreement to the Anglo-Iranian Oil Company (AIOC) concession, by depriving Iran of approximately 15 million pounds of needed immediate revenue, may have serious economic consequences. Loss of this anticipated revenue means additional strain on the country's financial resources, already heavily taxed by a record budget, the recently initiated economic development program, internal pressure for an expanded military

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~~SECRET~~**IRAN**

establishment, and an increasingly unfavorable balance of trade. Majlis opposition to the agreement was unexpectedly violent and may be attributed to anti-British sentiment and political theatrics rather than to sober and practical objections to the terms, which would have raised Iran's oil income to a point more in line with recent Middle Eastern oil contracts. AIOC claims that this agreement represents the company's final compromise. It is still possible, however, that additional slight revisions may be made in Iran's favor which, along with greater publicity for the AIOC concessions already made, might promote favorable consideration of the agreement when the Majlis convenes in the autumn.

INDIA - PAKISTAN

Kashmir Dispute Agreement by the Indian and Pakistani Armies on demarcation of a cease-fire line marks the first progress in months toward settlement of the Kashmir dispute. Whether this progress continues, however, will depend in large part on India's reaction to the expected proposal by the UN Commission on India and Pakistan (UNCIP) for a joint political meeting to consider truce proposals in preparation for a Kashmir plebiscite. Although Indian economic advisors are reportedly recommending to Prime Minister Nehru with increasing urgency that the Kashmir problem be settled, India is very reluctant to risk the loss of all Kashmir through a plebiscite held in the near future. Therefore, any efforts which the Indians might make toward a speedy settlement would probably be directed toward the partition of Kashmir roughly in accord with the present cease-fire line rather than toward a

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~~SECRET~~**INDIA - PAKISTAN**

plebiscite as demanded by Pakistan and as originally promised by India. Inasmuch as the Indian partition plan would probably be unacceptable to Pakistan, and in view of India's antipathy to a plebiscite, it is unlikely that India will do much at this time to facilitate a settlement of the Kashmir dispute. Unless economic considerations force a change in the Indian attitude, the problem in its present dangerous state will probably revert to the Security Council for further discussion.

THE GOLD COAST**Communist Activity**

[redacted] left-wing nationalists in the Gold Coast are now receiving material and money from Communist sources in the French Ivory Coast, the Belgian Congo, and Ethiopia suggest that the USSR is concerned about the growing economic importance of colonial Africa and is becoming more active in fomenting political unrest there. The recent expansion of the Kremlin's anti-colonial radio propaganda beamed at Africa is further evidence of Soviet interest in this area. Heretofore, contacts between Gold Coast nationalists and Communists have been slight and mainly through certain London associates of the Marxist-influenced leader, Kwami Nkrumah. The reported transfer of a battalion of Grenadier Guards to the Gold Coast reflects current British concern over maintaining public order there.

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(b)(3)

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F A R E A S T

• CHINA

Communist Advance Chinese Communist military operations continued this week with little Nationalist resistance. In south central China, the Communists have apparently not yet started their final drive toward Canton, preferring first to gain firm control over the Changsha-Hengyang area. Meanwhile, the Communists have intensified their political and military preparations for eventual conquest of northwest China. On the military front, the present Communist offensive into Kansu may be the beginning of a full-fledged attempt to eradicate the rabidly anti-Communist forces under the Moslem war lord, Ma Pu-fang. It is more likely, however, that the Communists hope to be able to contain Ma's troops while driving south toward the Szechwan border. Concurrently, the Communists have increased the tempo of their political offensive in the northwest. A "Northwest Corps," made up of student administrators and political cadres, is being recruited in eastern China and a propaganda campaign boosting the Communist line of "autonomy for racial minorities" is being beamed at the Chinese and Turki Moslems, as well as at Mongols in the northwest.

BURMA

Official US Visit Burma Foreign Minister E Maung during his visit to the US next week hopes to discuss the extension of technical assistance to Burma under the Point IV program and the possibility of developing defenses against the spread of Communism in Asia. Despite some reports to the

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~~SECRET~~**BURMA**

contrary, the Foreign Minister appears to be making a genuine effort to establish closer Burmese relations with the West in order to restore stability and safeguard Burma's independence. Maung is an influential cabinet member, and the continuation of the Burmese Government's trend toward a more moderate policy may depend on the success of Maung's visit.

PHILIPPINES

Quirino's Visit Philippine President Quirino's forthcoming visit to the US may have a significant effect on the outcome of the November presidential elections. At the moment, Quirino's prospects of defeating ultranationalist Jose Laurel are considered only fair. However, if Quirino returns from Washington with promises of additional financial and military aid, his chances in the elections will be improved. Even if Quirino is able to report no more than increased US interest in Philippine economic and military affairs, a considerable portion of the electorate will be favorably impressed. On the other hand, nationalist leaders and the opposition press will continue to cite Quirino's US visit as substantiation of their campaign charges that Quirino has induced the US to interfere in Philippine internal affairs.

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~~SECRET~~**KOREA**

Pacific Pact Chiang Kai-shek's visit to Korea this week is undoubtedly for the purpose of promoting the proposed Pacific pact. Korean President Rhee apparently remains unconvinced that Chiang's participation in a pact would diminish its chances of success and persists in believing that such a group has a good chance of procuring additional US military and financial aid. Although Rhee may not at this time formally agree to enter into a narrow Pacific union which includes only Chiang's tottering regime and the Philippines, there is a possibility that the impending conversations with Chiang may result in some formal Korean commitments to Nationalist China. In this event, the Republic of Korea may find itself at a considerable disadvantage should other Pacific nations succeed in forming a more viable union excluding China.

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